

CONSOLIDATION AND SELF SUFFICIENCY OF AGRARIAN REFORM SETTLEMENTS

(BR-0274)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: Federal Republic of Brazil

EXECUTING AGENCY: Instituto Nacional de Colonização e Reforma Agrária (INCRA)

AMOUNT AND SOURCE:

IDB: (OC in local currency)	US\$51 million
Local counterpart funding:	US\$34 million
Total:	US\$85 million

FINANCIAL TERMS AND CONDITIONS:

Amortization period:	25 years
Grace period:	5 years
Disbursement period:	5 years
Interest rate:	4%
Supervision and inspection:	1%
Credit fee:	0
Currency:	N/A

OBJECTIVES:

Past approaches for addressing problems of land distribution in Brazil have focused on land reform programs administered by the Government through its Instituto Nacional de Colonização e Reforma Agrária (INCRA). At the heart of INCRA's program is the acquisition of land and the support of organized rural settlements to enable them to reach self-sufficiency.

Any organized settlement residing on land for which it wants to secure title is in principle eligible for a package of assistance from INCRA. Most settlements requesting and receiving this support are squatters on large land-holdings. In many cases, their possession of the land has arisen as a result of conflict. INCRA's package of support includes land purchase and titling, infrastructure, highly subsidized credit, access to technical assistance and some social services.

When the program to support settlements was developed in the late 1960s, INCRA's support was intended to provide a bridge of assistance so that settlements would become self-sufficient by eventually graduating from INCRA's assistance. In practice, however, INCRA has lost sight of the self-sufficiency objective.

Although INCRA is supporting some 560,000 families residing in organized settlements (some of whom have been receiving support since 1970), only 48,000 families have graduated from INCRA support. Because funds utilized to support these settlements use an increasing share of INCRA's budget, fewer resources are available to incorporate new settlements into the land reform program thereby hindering the government's efforts to increase the pace of land distribution.

The program's objective is to develop a system for accelerating the process of graduating rural settlements from INCRA support. With 75 agrarian reform settlements (about 12,500 families) serving as its focus, this pilot program will develop and finance graduation packages for each of the participating settlements. These packages, which are designed so that settlements can reach self-sufficiency and graduate from the INCRA program, will provide social and productive infrastructure, technical assistance and training. By the end of the program, a decentralized model for a more organized and rapid graduation process for rural settlements will have been developed and tested. If successful, it is anticipated that the model will be replicated in a nation-wide graduation program.

DESCRIPTION:

The seven states selected for the program are: Maranhão, Rio Grande do Norte, Minas Gerais, Mato Grosso, Mato Grosso do Sul, Paraná, and Rio Grande do Sul.

The program has the following components: (i) graduation packages; (ii) program evaluation and studies; and (iii) project administration, graduation plan preparation, and external audit.

1. Graduation Packages (US\$64.6 million)

a. Infrastructure (US\$43.1 million)

Most of the project's resources will be used to finance community investments. These investments would be granted to participating settlements who would donate labor as an in-kind contribution. Investments fall broadly into three categories: (i) physical infrastructure; (ii) social infrastructure; and (iii) productive infrastructure. Those investments will include: improvement of existing and construction of new access roads, installation of electrical transmission lines, and construction of small water supply systems, construction and equipping of primary schools and health posts, construction of on-farm storage facilities, soil recuperation (including terracing, decompacting, and reforestation), environmental protection, and community agro-industrial facilities to prepare products for market.

b. Technical assistance and training
(US\$21.5 million)

Graduation packages will also include technical assistance and training for settlement associations. Technical assistance will support productive infrastructure projects in areas related to agricultural production, processing, marketing, and microenterprise development.

2. Program evaluation and studies (US\$3.7 million)

a. Impact study (US\$1 million)

This study, to be undertaken at the end of the third year of the project, will: (i) identify problems and issues in the design of the program (eg. unforeseen impediments to graduation); (ii) determine whether the approach in the pilot will be applied nation-wide; (iii) evaluate INCRA's performance in program execution; (iv) develop benchmarks for acceptance of newly organized communities into the program with the goal of speeding the rate of graduation; (v) recommend new criteria, procedures, and measures to be taken to make the program more effective; and (vi) evaluate the socio-economic and fiscal impacts of the program at the local and regional level.

b. Phase II, preparation (US\$2 million)

The Program will finance the preparation of additional graduation plans in order to extend the program to the national level. Funds for phase II preparation will be utilized after the project's impact assessment.

c. Pilot studies of the Amazon (US\$0.7 million)

Given the complex social and environmental conditions in the North, the program will provide funds to study the special needs and conditions of agrarian reform settlements in the Amazon. Specifically, six case studies of different types of settlements (traditional settlements, extractivists, and colonies) in different sub-regions will be prepared. These case studies will examine infrastructure, assistance received, organization, productive systems, future prospects, and make recommendations for future interventions.

3. Project administration, and graduation plan preparation (US\$8 million)

a. Administration (US\$3.25 million)

The program will finance the cost of operating the executing unit at the national level and special technical groups at the state level. The composition and function of these units are detailed in Chapter III.

b. Graduation plan preparation (US\$4.75 million)

The program will finance preparation of the remaining 62 graduation plans to be initiated in year two and three of this program. As detailed in Chapter III consulting firms will be hired to complete the remaining plans.

External auditing will be performed by the "Secretaria Nacional de Controle", which will perform annual audits of the project's financial statements.

Responsibility for overall coordination of the program will rest with INCRA. The project's

executing unit at the national level will be located in the Office of the President of INCRA. At the local level State Technical Units (STUs) will be created in INCRA offices in the seven participating states.

The operational manual, developed in preparation for the program, establishes the major guidelines for project execution including organizational structure, selection criteria, eligible investments, procedures for developing plans, and environmental and procurement procedures.

**RELATIONSHIP OF
PROJECT IN BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Government's poverty alleviation strategy is linked to an overall strategy for overcoming constraints to investment and productivity growth in the agricultural sector. The Bank's lending program is supporting Brazil in the following priority areas: (i) reform of the public sector and modernization of the state; (ii) opening up of the economy and modernization of the productive sectors; and (iii) improvement in equity and poverty alleviation through land distribution and job creation.

By more rapidly graduating rural settlements to speed up the process of land reform, the program contributes to all three of these priority areas. First, the program is reforming the public sector by improving INCRA's capacity to implement those procedures. Second, the program is contributing to modernization of the productive sectors by increasing the productivity of agriculture through the establishment of family farms and better land use. Third, the program is improving equity by freeing up fiscal resources to increase the momentum of Brazil's land reform program.

**ENVIRONMENTAL AND
SOCIAL REVIEW:**

Due to the limited scale of each investment plan, no significant negative environmental or social impacts are expected. The program's operational manual requires that each plan identify probable negative environmental impacts of its investments and propose and execute measures for mitigation (& 5.10).

BENEFITS:

The beneficiaries, participating agrarian reform settlements, will receive the direct tangible project benefits of infrastructure and technical assistance. More significant, however, is the benefit of establishing a transparent system for rapid graduation of settlements from INCRA. A transparent system for graduation will more efficiently utilize INCRA's resources thereby enabling more communities to participate in the land reform program.

RISKS:

Only 47 settlements with 48,000 families have graduated from INCRA support. While graduating so few families in part reflects a lack of incentives, particularly in the credit program, it also reflects

a resistance on the part of INCRA to developing a program for graduating settlements. Strong political will from the Government to dramatically increase the pace of the land reform program is putting considerable pressure on INCRA to develop such a program.

**SPECIAL
CONTRACTUAL
CLAUSES:**

Prior to first disbursement the contract will require the following:

a. Evidence that the executing unit is fully staffed (& 3.13);

b. Evidence of the establishment and staffing of seven State Technical Units for project execution at state level (& 2.5);

c. Implementation of the program's operational manual prepared according to version previously approved by the Bank (& 2.7);

d. Signature of an agreement between the MDA and INCRA outlining the responsibilities of each in the program's execution (& 3.3);

e. Bank approval of a model graduation agreement to be signed between the settler's association or cooperative, the municipality and the executing unit outlining the responsibilities of each in the implementation of the respective Graduation Plan (& 2.13);

f. Signature of a contract between the Banco do Brasil and INCRA under which the former agrees to serve as financial intermediary (& 3.14).

Other special conditions to be included in the contract are:

a. Prior to financing of graduation packages for this program, submission to the Bank for approval of the indicators for the program's impact study (& 2.24); and

b. Prior to transfer of resources to a specific settlement, evidence that the settlement has signed the agreement described in item "e" above (& 2.13).

It is recommended that up to US\$1.9 million in previous expenses be recognized as local counterpart.

This request is for costs associated with preparing the 13 graduation plans in the sample and with creating the executing unit (& 3.25).

**POVERTY TARGETING
AND SOCIAL SECTOR
CLASSIFICATION:**

This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (Document AB-1704). Furthermore, this operation qualifies as a Poverty Targeted Investment (PTI) according to sector-automatic, geographic and head-count criteria

(& 5.20). The borrowing country will be using the 10% points in additional financing.

**EXCEPTIONS TO
BANK POLICY:**

None.

PROCUREMENT:

Goods and services. In accordance with Bank policies, international competitive bidding will be used for contracts for works worth US\$5 million and over and for contracts for goods and related services worth US\$350,000 and over.

Consulting services. Consulting services will be selected and hired in accordance with Bank procedures, as established in Annex C to the loan contract. International competitive bidding will be required for contracts worth more than US\$200,000 equivalent.

